



**STATE OF UTAH INSURANCE DEPARTMENT**

**REPORT OF FINANCIAL EXAMINATION**

of

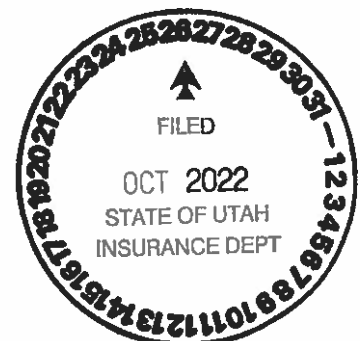
**PRIMEONE INSURANCE COMPANY**

of

**Salt Lake City, Utah**

as of

**December 31, 2021**



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October 6, 2022

Honorable Jonathan T. Pike, Insurance Commissioner  
Utah Insurance Department  
4315 S. 2700 West, Ste. 2300  
Taylorsville, Utah 84129

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, an examination, as of December 31, 2021, has been made of the financial condition and business affairs of:

**PRIMEONE INSURANCE COMPANY**  
Salt Lake City, Utah

hereinafter referred to in this report as “the Company”, and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered by Examination**

Representatives of the Utah Insurance Department (Department) have performed a full scope examination of the Company. This examination covers the period of January 1, 2018, through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

**Examination Procedures Employed**

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination,

however, does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other insurance regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

The following items are significant findings and recommendations for inclusion in this report:

### **FINANCIAL STATEMENT**

#### **1. Net Deferred Tax Asset**

The Company was unable to provide any evidence, documentation, or justification as to why taxes as reported in the 2021 Annual Statement were the same as that reported on the 2020 Annual Statement, particularly:

- Assets, line 18.2 – Net deferred tax asset
- Exhibit of Non-admitted Assets, line 18.2 – Net deferred tax asset
- Notes to the Financial Statement, #9 – Income Taxes

The Company admitted that this was an error in the 2021 statutory filing.

#### **Recommendation:**

We recommend management with proper expertise review and approve all tax documents and disclosures prior to statutory and federal filings in order to ensure accuracy and completeness. Evidence of review and approval should be maintained and available upon request.

#### **2. Underwriting & Investment Exhibit – Part 3**

The Underwriting & Investment Exhibit – Part 3 footnote of the 2021 Annual Statement was not populated to separately disclose what portion of management fees was paid to affiliates and what portion was paid to non-affiliates.

#### **Recommendation:**

The Company should ensure accuracy and completeness of all applicable Quarterly and Annual Statement footnotes.

### **3. Sedgwick Fee Recorded and Paid in Error**

During substantive testing of accrued expenses for the Sedgwick (unaffiliated claims third party administrator) fee on the assumed insurance from Trisura Specialty Insurance Company (Trisura), the examiner discovered that accrued expenses in 2020 were being booked with unverifiable estimates. In addition, the Company made an erroneous payment to Sedgwick for expenses that should have been paid by Trisura.

#### **Recommendation:**

The Company should only book an estimated amount for its assumed portion of the Sedgwick fee expenses using the most recently available invoice information. In addition, while correction has been made for the erroneous payment, management should ensure appropriate reconciliation of expenses occurs on a timely basis.

### **4. Inaccurate Reporting of Schedule F – Part 6**

While reviewing Schedule F – Part 6 of the 2020 and 2021 Annual Statements, we noted the following errors:

- 2020: Line 3 and line 14 are reported net of reinsurance
- 2020, 2021: Line 6 is inaccurate as it is based on all other adjustments to assets and liabilities
- 2020: Line 7 does not correspond to line 27 of the Assets page
- 2020, 2021: The adjustment on line 9 does not reconcile with the sum of Schedule F – Part 3, columns 9 through 12

#### **Recommendation:**

We recommend the Company prepare Schedule F – Part 6 in accordance with the NAIC Annual Statement instructions.

### **5. Facultative Reinsurance not Reported in Schedule F – Part 3**

During substantive testing, the examiner noted that the Company utilizes facultative reinsurance for amounts underwritten that exceed the Company's coverage limitations. The ceded premiums to facultative reinsurers were not reported in Schedule F – Part 3 of the 2021 Annual Statement. These reinsurance agreements meet the definition of prospective reinsurance contracts per SSAP No. 62R, paragraph 26, which states, "Prospective reinsurance is defined as reinsurance in which a reinsurer agrees to reimburse a ceding entity for losses that may be incurred as a result of future insurable events covered under contracts subject to the reinsurance."

#### **Recommendation:**

We recommend the Company report all ceded reinsurance, including facultative reinsurance, on Schedule F – Part 3, according to SSAP No. 62R.

## **RELATED PARTY**

### **6. Late Form D Filings**

The Company did not submit Form D for the following related party agreements to the Department at least 30 days prior to entering them as required by Utah Code § 31A-16-106(1)(b):

- On April 1, 2021, the TPA Services Agreement with Norse Specialty Insurance Services (Norse) was amended to reduce the fee percentage from 8% to 4.5% of Trisura net written premium. A Form D wasn't filed until April 26, 2022, with a retroactive effective date of January 1, 2021. This amendment was disapproved by the Department on May 25, 2022 due to lack of support of the fair and reasonable clause as defined by Utah Code § 31A-16-106(1)(a)(i).
- From December 1, 2016 to December 31, 2020, the Company was party to a Managing General Agent (MGA) Agreement with Norse and paid 21% of its gross direct written premiums. A Form D wasn't filed until January 26, 2018, with a retroactive effective date of December 1, 2016. This agreement was disapproved by the Department on June 4, 2018, due to lack of support of the fair and reasonable clause as defined by Utah Code § 31A-16-106(1)(a)(i).

### **Recommendation:**

We recommend the Company file Form Ds for all related party transactions and agreements at least thirty (30) days prior to the effective date in accordance with Utah Code § 31A-16-106. We also recommend settlements are made timely and in accordance with related party agreement terms.

### **7. Unauthorized Related Party Transactions**

The following unauthorized related party transactions took place during the examination period and were not reversed or trued-up:

- Norse MGA fees – Commissions paid to Norse under the disapproved agreement were:

<b>Year</b>	<b>Commission Paid</b>
2018	\$1,508,963
2019	\$1,634,358
2020	\$1,740,939

- Freyja Holdings, Inc. (Freyja) Third Party Administrator (TPA) fees – \$420,000 in 2018, \$120,000 in both 2019 and 2020. Further, the amounts paid to Freyja were not disclosed in Schedule Y – Part 2 of the 2019 and 2020 Annual Statement as required by NAIC Annual Statement Instructions.

**Recommendation:**

We recommend the Company engage in related party transactions only under the terms of agreements that have been non-disapproved by the Department. We also recommend that all said agreements and transactions be accurately and completely disclosed in the Notes to Financial Statements, supporting exhibits, and Schedule Y - Part 2 of the Annual Statement, as applicable, in accordance with NAIC Annual Statement Instructions.

## **COMPANY HISTORY**

**General**

The Company is a property and casualty insurance company previously owned by Michigan One Funding, LLC (MOF). The Company was originally incorporated on October 13, 2009, and was authorized to write business in Michigan beginning December 22, 2009. MOF voluntarily placed the Company in run-off on April 28, 2014, and began to non-renew its remaining policies.

The Company was purchased by Freyja on December 31, 2014. Freyja was established on September 11, 2014, for the purpose of acquiring the Company and functions as its holding company. The Michigan Department of Insurance approved the Company to start issuing policies again in March 2015.

Effective December 6, 2016, the Company re-domesticated to Utah, and is currently licensed to write business in the states of Arizona, Michigan, New Mexico, Nevada, and Utah.

**Mergers and Acquisitions**

No mergers and acquisitions took place during the examination period.

**Dividends and Capital Contributions**

As of December 31, 2021, the Company had 10,000,000 shares of \$1 par value common stock authorized, and 9,500,450 shares issued and outstanding. The Company neither paid nor declared stockholder dividends during the examination period.

During the first quarter of 2018, Freyja sold its minority shares to two independent investors, each receiving 8.92% ownership in exchange for a total capital of \$2,800,000. The funds were received by Freyja in March 2018, then distributed to the Company. The Department approved the Company's request to recognize a capital contribution receivable and the subsequent contributed funds of \$2,800,000 as of December 31, 2017.

On August 23, 2019, Freyja contributed \$2,000,000 to the Company. The source of the funds was the Robin Hood Trust (Trust), wholly owned by David and Tracey Thorson, which controls 82.16% of Freyja.

There were no capital contributions made in 2020 and 2021.

## **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

### **Board of Directors**

The following persons served as directors of the Company during the examination period:

<b>Name</b>	<b>Term</b>	<b>Title, Company</b>
David Thorson	2015 – Present	President, CEO <i>PrimeOne Insurance Company</i>
Tracey Thorson	2015 – Present	Treasurer <i>PrimeOne Insurance Company</i>
Michael Bennett	2016 – Present	CEO <i>Crewe Capital</i>
Grant Rowan	2016 – 2020	Partner, Investment Advisor <i>Porch Financial</i>
Steven Nigro	2020 – Present	Managing Partner <i>TAG Financial Institutions Group, LLC</i>

### **Committees**

The Board Committees as of December 31, 2021, consisted of an Audit Committee and an Investment Committee. All directors are members of both committees and there are no designated chairpersons.

### **Officers**

The following persons served as officers of the Company as of December 31, 2021:

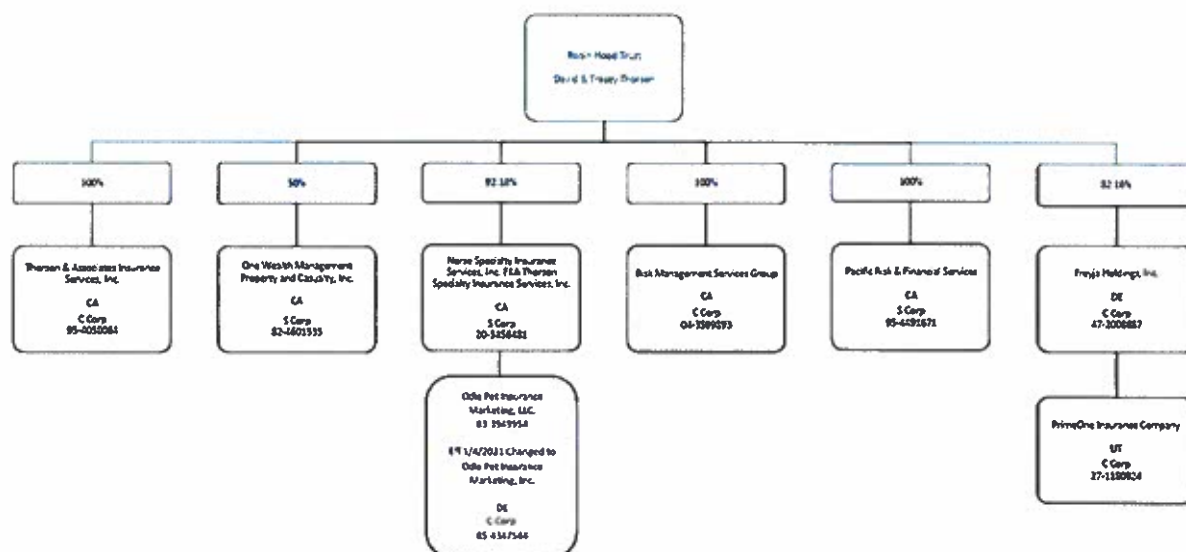
<b>Name</b>	<b>Title</b>
David Thorson	President, CEO
Tracey Thorson	Vice President, Treasurer
Traci Wood	Secretary

### **Holding Company**

The Company is a member of a holding company as defined in Utah Code §31A-16, and is a wholly owned subsidiary of Freyja, which is 82.16% owned by the Trust. David and Tracey Thorson are the sole beneficiaries of the Trust, and thus, the ultimate controlling parties (UCPs).



The organizational chart as of December 31, 2021 is as follows:



### Transactions and Agreements with Affiliates

Related party agreement and transaction activity during the examination period and subsequent is as follows:

#### Office Sharing

Effective May 1, 2019, the Company entered into an Office Sharing Agreement with Norse and Thorson & Associates Insurance Services, Inc. (TAIS). The affiliates each pay 30% of the monthly rent expense of the New York office. The Company's portion of rent expense, net of expense sharing was \$94,155.04 for the year ended December 31, 2021.

#### Services

Effective May 30, 2019, the Company entered into a TPA Services Agreement with Norse. The Company provides TPA services such as oversight, loss control, and risk management to Norse for a book of Trisura business that is administered by Norse. The Company receives 8% of Trisura's net written premium in exchange. Norse paid the Company \$967,120.14 for the year ended December 31, 2021.

Effective November 13, 2021, the agreement was amended to update Norse's name from its prior title and revise the fee paid to the Company from 8% of net written premium to 0.8% of net written premium. This addendum was approved by the Department on December 3, 2021.

#### Claims Services

Effective September 1, 2019, the Company entered into a Claims Services Agreement with Norse. The Company provides claims TPA services to Norse for a book of Clear Blue Insurance Company pet insurance business administered by Norse. The Company receives 6.5% of Clear Blue

Insurance Company's net premium written in exchange. Norse paid the Company \$9,831 for the year ended December 31, 2021.

**Managing General Agent (MGA)**

Effective January 1, 2021, the Company entered into an MGA Agreement with Norse, which replaced the existing MGA Agreement that was made effective as of December 1, 2016. The fees paid to Norse by the Company depend on the type of insurance policy coverage:

- Small to medium enterprises – 22.5% gross written premium
- London-brokered U.S. property policies – 28.5% gross written premium
- Non-standard auto business – 0.75% gross written premium

The Company paid \$1,861,632 to Norse for the year ended December 31, 2021.

**TERRITORY AND PLAN OF OPERATIONS**

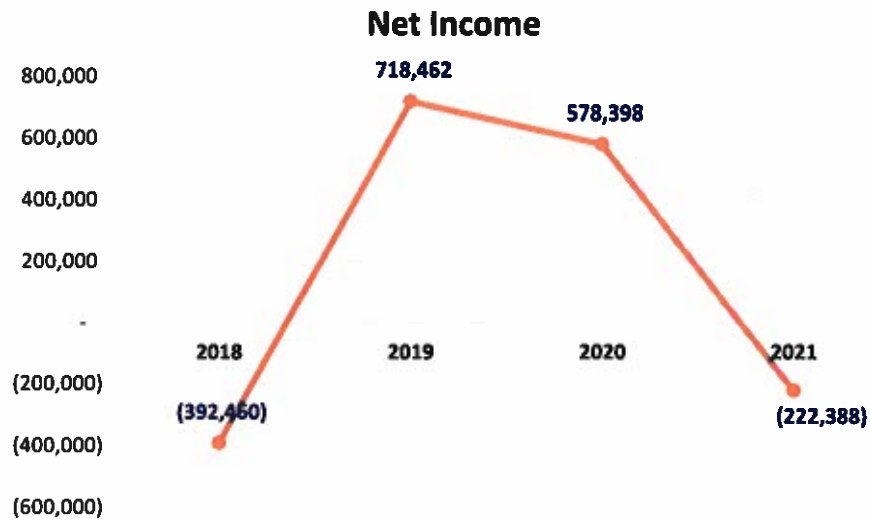
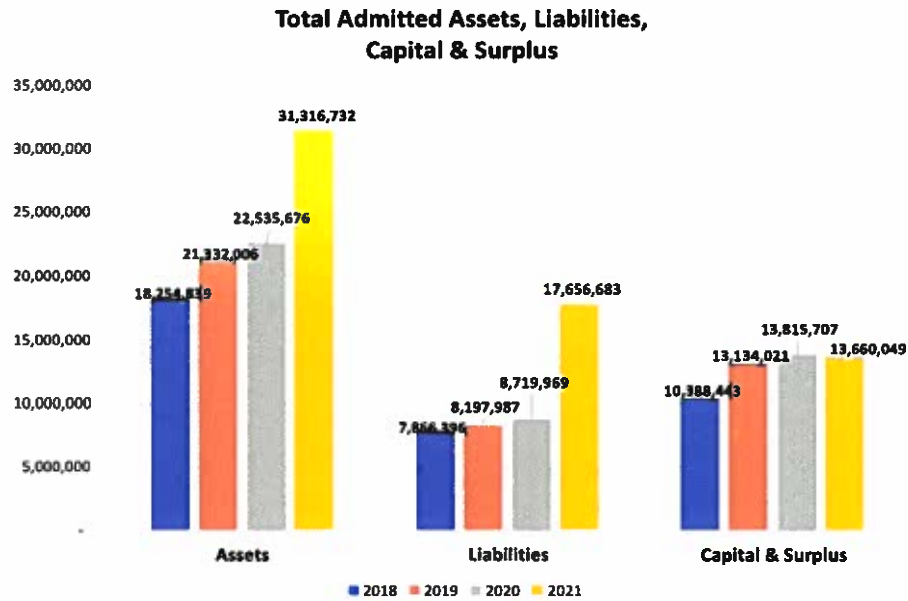
The Company generates operating revenues from direct writings of independent brokers. The Company sells commercial auto, property, and liability insurance products; general liability; and, liquor liability with emphasis on small and medium size businesses such as retail, mercantile, hospitality, and gas stations. Beginning in January 2021, the Company began providing private passenger auto insurance.

As of the examination date, approximately 88% of policies were written in Michigan, 6% in Utah, 3% in New Mexico, 2% in Nevada, and 1% in Arizona.

**GROWTH OF COMPANY**

During the examination period, the Company experienced asset and capital & surplus growth. Liabilities saw a significant increase in 2021 as a result of the higher volume of reinsurance ceded premiums payable. The Company's net income is variable from year to year, reporting negative net income in 2018, then rebounding in 2019, decreasing in 2020, and then was negative again in 2021.

The following graphs illustrate the growth of the Company during the examination period:



## REINSURANCE

### Assumed

#### ***Trisura***

Effective April 1, 2019, the Company entered into a multi-line Quota Share Reinsurance Agreement with Trisura. The Company assumes 5% of Trisura's commercial property business and 15% of its commercial liability business ceded under a master reinsurance agreement.

### ***Clear Blue***

Effective September 1, 2019, the Company entered into a Quota Share Reinsurance Agreement with Clear Blue Insurance Company and Clear Blue Specialty Insurance Company (collectively, Clear Blue). The Company assumes 10% of Clear Blue pet insurance business ceded under the master reinsurance agreement.

### **Ceded**

#### ***Swiss Re America***

The Company's primary loss mitigation strategy is the use of ceded reinsurance arrangement with Swiss Re America (SRA), an authorized reinsurer. In the reinsurance agreement revision, effective April 1, 2019, the Company has an 85/15 Quota Share Agreement with SRA for its multi-line business.

#### ***Additional Quota Share Agreements***

Effective December 1, 2017, the Company entered into Quota Share and Funds Held Agreements with four offshore Turks and Caicos Islands captive reinsurers. Those agreements were terminated on December 1, 2018, and funds owed were subsequently distributed to the respective parties.

Effective January 1, 2021, the Company entered into a 65% Quota Share Agreement with Greenlight Reinsurance Ltd, and a 35% Quota Share Agreement with Continental Indemnity Company, both authorized reinsurers, to cede all of its non-standard auto business. The Company receives a 5% ceding commission and annual net written premiums cannot exceed \$30,000,000.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2021. The accompanying COMMENTS ON FINANCIAL STATEMENTS (if any) reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**PRIMEONE INSURANCE COMPANY  
BALANCE SHEET**

as of December 31, 2021

**ASSETS**

	<u>Net Admitted Assets</u>
Bonds	\$ 9,531,539
Cash, cash equivalents and short-term investments	8,131,941
Investment income due and accrued	69,150
Uncollected premiums and agents' balances in the course of collection	6,022,388
Amounts recoverable from reinsurers	4,904,491
Funds held by or deposited with reinsured companies	1,521,254
Net deferred tax asset	687,007
Electronic data processing equipment and software	1,951
Receivables from parent, subsidiaries and affiliates	16,166
Aggregate write-ins for other-than-invested assets	<u>430,845</u>
Total Assets	<u>\$31,316,732</u>

**PRIMEONE INSURANCE COMPANY**  
**BALANCE SHEET (Continued)**

as of December 31, 2021

**LIABILITIES, SURPLUS, AND OTHER FUNDS**

	<u>Current Year</u>
Losses	<u>\$ 2,319,397</u>
Reinsurance payable on paid losses and los adjustment expenses	1,462,927
Loss adjustment expenses	699,745
Other expenses (excluding taxes, licenses and fees)	103,243
Taxes, licenses and fees (excluding federal and foreign income taxes)	277,008
Unearned premiums (net of unearned premiums for ceded reinsurance)	1,839,111
Ceded reinsurance premiums payable (net of ceding commissions)	10,418,881
Aggregate write-ins for liabilities	<u>536,371</u>
Total Liabilities	17,656,683
 Common capital stock	 9,500,450
Gross paid in and contributed surplus	6,000,000
Unassigned funds (surplus)	<u>(1,840,401)</u>
Total Capital & Surplus	<u>13,660,049</u>
Total Liabilities, Surplus and Other Funds	<u>\$31,316,732</u>

**PRIMEONE INSURANCE COMPANY**  
**STATEMENT OF INCOME**  
for the Year-Ended December 31, 2021

	<u>Current Year</u>
Premiums earned	<u>\$ 2,988,934</u>
Losses incurred	2,070,457
Loss adjustment expenses incurred	1,032,303
Other underwriting expenses incurred	<u>1,364,604</u>
Net underwriting gain (loss)	(1,478,430)
 Net investment income earned	 261,706
Net realized capital gains (losses)	<u>27,216</u>
Net investment gain (loss)	288,922
 Aggregate write-ins for miscellaneous income	 <u>967,120</u>
Total other income	967,120
 Net income before dividends, after capital gains tax and before all other federal and foreign income taxes	 <u>(222,388)</u>
Net income	<u>\$ (222,388)</u>

PRIMEONE INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS

2018 through 2021

	2018	2019	2020	2021
Capital and surplus, December 31, prior year	<u>\$10,442,978</u>	<u>10,388,444</u>	<u>\$13,134,022</u>	<u>\$13,815,708</u>
Net income	(392,460)	718,462	578,398	(222,388)
Change in net unrealized capital gains (losses)	-	(11,615)	10,037	9,009
Change in net deferred income tax	-	-	(38,156)	-
Change in nonadmitted assets	330,981	38,731	131,407	58,241
Change in provision for reinsurance	6,945	-	-	-
Surplus, paid in	-	2,000,000	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	(521)
Net change in capital and surplus for the year	<u>(54,534)</u>	<u>2,745,578</u>	<u>681,686</u>	<u>(155,659)</u>
Capital and surplus, December 31, current year	<u><u>\$10,388,444</u></u>	<u><u>\$13,134,022</u></u>	<u><u>\$13,815,708</u></u>	<u><u>\$13,660,049</u></u>



## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as of December 31, 2021 as a result of the examination.

## **SUBSEQUENT EVENTS**

The Department has identified the following subsequent events of note that may have a strategic and/or financial impact on the Company:

- The holding company sold TAIS, effective June 2022. TAIS was a party to the Office Sharing Agreement and no amended agreement has been filed with the Department for approval.
- Effective January 1, 2022, the Company entered into a new quota share reinsurance agreement with Osprey Re FRU PrimeOne Sun Coast Captive Insurance, PC, an unauthorized captive reinsurer domiciled in Georgia, to cede 35% of its non-standard automobile business. Ceded business excludes policies written in Nevada and no business has yet to be ceded under this agreement.

## **ACKNOWLEDGEMENT**

John Pedrick, FCAS, MAAA, Lead Pricing Actuary, and Pete Vuong, FCAS, MAAA, Consulting Actuary, of INS Regulatory Insurance Services, Inc., performed the actuarial review of the examination. Joseph W. Detrick, CFE, CPA, CISA, AES, of Jennan Enterprises, LLC, performed the information systems review. Malis Rasmussen, MSA, CFE, SPIR, Chief Financial Examiner, supervised the examination. Cambria Shore, AFE, MSA, Financial Examiner, of the Utah Insurance Department, and Angela Alires, Financial Examiner, of the Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

A handwritten signature in black ink that reads "Natasha Robinson". The signature is written in a cursive, flowing style.

Natasha Robinson, CFE, PIR  
Examiner-in-Charge  
Utah Insurance Department